

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

Docket No. 2002-688

December 3, 2002

BANGOR HYDRO-ELECTRIC COMPANY  
Application for Approval of Issuance of  
Securities (§902) (\$20 Million Senior  
Unsecured Notes)

ORDER APPROVING  
ISSUANCE OF  
SECURITIES

WELCH, Chairman; NUGENT & DIAMOND, Commissioners

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**I. SUMMARY**

On November 5, 2002, Bangor Hydro-Electric Company (BHE or the Company) filed with the Commission its application for authority to issue up to \$20 million in fixed-rate unsecured notes through Fleet Securities, Inc. (Fleet or FSI) for period not to exceed 10 years. The Company intends to use all the proceeds of this issuance to refinance a portion of its outstanding variable rate short-term debt to take advantage of current market conditions, where interest rates are relatively low by historical standards. These securities will be offered on a private placement basis and the fixed interest rate is not expected to exceed a margin of 2.50% over the yield of U.S. Treasury Notes with a comparable maturity. This Order approves BHE's request.

**II. BACKGROUND & DISCUSSION**

BHE currently has \$38.5 million outstanding under its current revolving credit agreement, which has a \$70.0 million limit. With fixed interest rates for medium and long-term debt at historically low levels, the Company has chosen to refinance \$20.0 million of its outstanding short-term debt with the proposed unsecured notes. Depending on future market conditions, BHE may choose to refinance additional amounts of short-term debt at a later date. While BHE's revolving credit agreement will remain in place, the Company is not characterizing this issuance as "new money."

BHE has requested the flexibility to choose a maturity of between 5 and 10 years, and current indications from FSI are that the fixed interest rate will not exceed 2.50% (or 250 basis points) over the comparable U.S. Treasury security.<sup>1</sup> Based on the Federal Reserve's H.15 publication released on November 18, 2002, the 5-year and 10-year Treasury rates were 2.93% and 3.94% respectively. This would indicate a fixed interest rate to BHE of between 5.43% and 6.44%. In addition, FSI and BHE have agreed on a private placement issuance fee of \$150,000, which amounts to an

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<sup>1</sup> The Company and FSI expect that it is more likely that the actual spread will be 2.20% to 2.30% over comparable treasuries.

additional cost of 75 basis points based on a \$20 million issuance.<sup>2</sup> BHE, therefore, expects to realize an “all-in cost” of between 6.20% and 7.20% on this issuance.

BHE continues to hold a senior debt rating of BBB (“Triple-B”) from Standard & Poors, which is equivalent to a Moody’s rating of Baa. As of November 20, 2002, Moody’s indicates that the current interest yield on long-term “Triple-B” utility debt is roughly 7.70%. This aggregate rate is indicative for maturities longer than 10 years, and includes secured as well as unsecured issuances, but it suggests that BHE’s top-end cost estimate of 7.20% is reasonable. The spread between 10-year and 20-year Treasury bonds is roughly 100 basis points<sup>3</sup> and subtracting that margin from the Moody’s current Triple-B average rate would produce a rate of 6.70% for a 10-year Triple-B utility issuance, which is fairly comparable to BHEs expected all-in rate here. With BHEs proposed issuance being unsecured, it would also be considered more risky, relatively speaking, and we would thus expect it to carry an interest rate that was somewhat higher than the average.

Having reviewed the application of the Company, together with data filed in support of it, it is the opinion of the Commission that the proceeds of the issuance of the bonds are required in good faith for the purposes enumerated in 35-A M.R.S.A. §901. In approving this securities issue, consistent with normal practice and pursuant to §902(4), the Commission does not imply approval of the Company’s capital needs or capitalization ratio for ratemaking purposes, nor does this order limit or restrict the powers of the Commission in determining or fixing any rate.

Accordingly, we

## O R D E R

1. That Bangor Hydro-Electric Company is hereby authorized to issue up to \$20 million in unsecured notes, to be used solely for the purposes described in this Order, for a period not to exceed 10 years, at a fixed interest rate not to exceed 250 basis points (2.50%) over the prevailing rate on Treasury securities of a comparable maturity on the date of issuance.

2. That the Company report to this Commission, in writing, its actions pursuant to this order within sixty (60) days of the date of the closing of this transaction.

3. That a copy of this Order be mailed to interested parties and this Docket be closed.

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<sup>2</sup> BHE indicated that it received multiple quotes on this offering and a fee of this magnitude was typical.

<sup>3</sup> Per the Federal Reserve’s November 18, 2002, H.15 Release, the 20-Year Treasury Bond yielded 4.94% compared to the 10-Year T-Bond rate of 3.94%.

Dated at Augusta, Maine, this 3<sup>rd</sup> day of December, 2002.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl  
Administrative Director

COMMISSIONERS VOTING FOR:      Welch  
                                                 Diamond

COMMISSIONER ABSENT:              Nugent

## NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 21 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.